UNITED STATES DEPARTMENT OF AGRICULTURE
AND
FEDERAL COMMUNICATIONS COMMISSION

KICKOFF FOR THE
FEDERAL RURAL WIRELESS OUTREACH INITIATIVE

Wednesday, July 2, 2003

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MR. THIEMAN: Take your seats. We'd like to get started in a few moments.

Hello, good morning, and welcome. Welcome to the U.S. Department of Agriculture, the kickoff for the Federal Rural Wireless Outreach Initiative and the new partnership between USDA and the FCC. Just a few announcements really quick. What we'll do is we'll start out with the welcome remarks from our Administrator, Hilda Legg, and the Chairman of the FCC, Michael K. Powell. Then we'll go into the FCC in Rural America breakout discussion session, followed by the Wireless Finance in Rural America by USDA Telecommunications Program, and then we'll go into the closing remarks.

Two other special items. They are due to the security here, if anyone would care to have lunch in our cafeteria, we would gather in the back and lead the groups down. So, again, if you'd like to stay for lunch and enjoy our cafeteria, meet in the back in groups and we'll have you escorted down. And secondly, those that have appointments with our telecommunications program and with FCC, please meet in the back, and if Deana is around, meet with Deana and Michelle, two of our volunteers on the back table, and they will take care of pointing you in the direction that you need to go.

So, with that, my name is Michael Thieman. I'm the USDA Rural Utilities Service Special Assistant to Hilda Legg, and we'd like to get rolling here, so I'd like to introduce Hilda Gay Legg, our USDA Rural Development/Rural Utilities Service Administrator. Please give her a warm welcome.

(Applause.)

MS. LEGG: Good morning and welcome to the auditorium here at the U.S. Department of Agriculture. It is a delight to sit here and to look at these joint fields with the FCC and with USDA and to see our names together on this. This is truly a terrific day for us here at the Rural Utility Service and Rural Development USDA because it means that we understand that in order to meet our mission, we must indeed have partners, partners both are out there in the field and our state offices, but partners here within Washington, D.C. And I am just absolutely delighted to be a part of this opening ceremony and to welcome you to this first and what I hope maybe, Kris, will be a number of these events where we

can gather and talk about truly the end result of what we do every day within the Federal Government and that end result is how we improve, how do we improve the quality of life for the residents of rural America.

You know, there are about 65 million residents in rural America, and about 60 million of them are true residents that aren't involved in production agriculture. It's a huge population that we serve, and it's one that I think needs every opportunity to have voices as advocates on their behalf to come together and together we make a louder noise, if you will, and send a louder message that the folks in rural America deserve the same opportunities as anyone else in this great country of ours.

That means you must have access to high speed information networks. We are not talking, ladies and gentlemen, about technology for the future, although if you hear me talk, I'll talk a lot about future generations and think about my son's future in rural America, and he's three, so we've all been out there a while. But what I'm telling you is that today, in today's rural America, you cannot survive as a small business, as an aspiring entrepreneur, creating sustainable wealth in your community. Even in health care facilities and education, every one of those individuals in rural communities, whether's it's in the Delta region, the Appalachian Mountains, the reservations of our Native Americans, whatever it is, those folks deserve that same opportunity, and today we're coming together to say how can we, as the FCC and the Rural Utilities Service, better communicate our message, our resources? How can we look at our operations internally and look at ways that we can better collaborate and share information and share resources?

So, my hat is very much off to the leadership at FCC and I guess I need to say a special thanks to Nancy Plonn (ph), because she and Mike Thieman were sort of the folks who I kept hearing about were putting these things together, so it takes a real team effort, and I'd like to say thank you to them--and to you for coming today because we ask you to take this message, to stay in touch with us, to let us know what makes sense that you hear today or how we can improve on this beginning. But I am delighted to have the opportunity to be here and to share this welcome with actually the Chairman of the Federal Communications Commission, and that is Mr. Michael Powell, and so at this time, if you would join me, we will hear from Chairman Powell. Thank you very much for being with us today.

(Applause.)

MR. POWELL: Good morning. It's with great pleasure that I welcome each of you and thank you for participating in the kickoff of the Federal Rural Wireless Outreach Initiative. This is the first in a series of events to promote the exchange of information regarding rural development and

telecommunications access and encouraging the services. The expertise that each of you can bring makes this initiative a success story of how agencies, industry, and our rural communities can work together to enhance the rate of economic development and growth throughout rural America.

I'd like to first acknowledge the work of the key participants and staff who put this program together. From the U.S. Department of Agriculture I want to thank Hilda Gay Legg, Administrator of the Rural Development/Rural Utilities Service; and Roberta Purcell, Assistant Administrator of the Rural Development Telecommunications Program.

We are pleased to announce the partnership between the Federal Communications Commission and the U.S. Department of Agriculture and to anticipate that it will be the first of many partnerships between our agencies. It is through this initiative that the USDA Rural Utilities Services and the FCC are able to jointly review their respective programs and regulatory structures so that they might coordinate activities and therefore expedite the build-out of wireless communications throughout the nation.

We look forward to your participation in this Federal Rural Wireless Outreach Initiative, which is focused on the following four goals: First, exchange information about products and services each agency offers both the expansion of telecommunications services in rural America. Second, to harmonize our rules, regulations, and practices whenever possible to maximize the benefits for rural America. Three, educate our partners and other agencies about our offerings. We have already begun this effort by launching a joint Federal Rural Wireless Outreach web site that specifically provides information addressing rural needs. And finally, four, expand our partnership to the extent that is mutually beneficial to other agencies and partners.

This even provides an open forum in which to discuss programs and opinions. We look forward to developing our partnership with the U.S. Department of Agriculture and making this initiative a success. Expanding the partnership to include other agencies, coordinating with industry, and providing information and programs to rural communities. Your participation and contributions to this initiative can make a major difference in the economic development of this nation. By becoming familiar with our respective programs each of us will be able to more successfully achieve our goals. I wish you success as you take this opportunity to synchronize the way agencies, industry, and rural communities work together to provide information to local and regional audiences with the purpose of encouraging a greater deployment of wireless services and thus enhancing the rate of economic development throughout rural America.

(Applause.)

MR. THIEMAN: Thank you, Chairman Powell and Administrator Legg, for getting this thing rolling. So, now with the kickoff officially out of the gate, let's go ahead and start with the session and get into the nitty-gritty of this. We'll start off with Kris Monteith. She's the Deputy Chief, Consumer and Governmental Affairs Bureau, CGB's rural programs from the FCC. Kris, please.

(Applause.)

MS. MONTEITH: Good morning. Thank you very much for this opportunity of being with you today to share some of the activities and the events that the Consumer and Governmental Affairs Bureau of the FCC is involved in to promote rural services across this country. I want to begin by thanking our partners here at the USDA and thanking all the staff persons at the FCC for their hard work in putting together this program. I know events like today's program don't just happen. They take a lot of hard work, and so I want to acknowledge those that were involved in putting together what I'm sure will be a very successful program.

What I'd like to briefly touch upon is the mission of the Consumer and Governmental Affairs Bureau overall and then just briefly talk about some of the key initiatives that we have undertaken that are aimed at rural America.

The Consumer and Governmental Affairs Bureau was restructured under the leadership of Chairman Powell in March of 2001; and with that restructuring we took on some new and some added responsibilities. Broadly speaking, we have three key goals or objectives. First, to educate consumers. We work to educate and inform consumers about telecommunications goods and services and to increase consumer awareness of the FCC's rules, regulations, and policies.

Secondly, we coordinate consumer telecommunications policy efforts both internally at the FCC and externally to the outside world. Internally, through our Consumer Policy Division, we have primary responsibility for a group of core policy initiatives that have a particular consumer orientation. And then within the FCC overall we coordinate with other bureaus and offices on other Commission policymaking activities to ensure that the consumer perspective is brought to the table. Externally, through our Intergovernmental Affairs Group, we work with other governmental agencies such as your own and work with states, localities, communities across America, tribes, very importantly, to ensure an understanding of the FCC's rules, regulations, and policies and coordinate our policies in areas of overlapping jurisdiction.

Lastly, we work to resolve consumer inquiries and complaints. In large measure, we are in some sense the voice of the FCC. The Consumer and Governmental Affairs Bureau mans the National Call Center for the FCC, so we are

in daily contact with consumers and hear from them what their issues are, what their questions are, and take their complaints and try and mediate and resolve those complaints.

So, let me just speak or touch upon each of those sort of core functions of the Consumer and Governmental Affairs Bureau and provide you some examples of how we go about fulfilling those responsibilities and those functions.

On the educational front, the Consumer and Governmental Affairs Bureau promulgates or puts together and produces consumer-related fact sheets and alerts. For example, we've produced a get connected promoting telephone subscribership, an Indian Affairs--an Indian country fact sheet. We've produced fact sheets on our universal service programs for low income consumers and for rural health care providers, and we've produced fact sheets on wireless issues, such as the 911 issue.

We also perform targeted outreach, either direct mailings to specific targeted audiences or constituencies. We have a rural web page aimed at getting information out to individuals in rural America and that kind of initiative. We also do events, forums, and workshops, and we oversee a consumer advisory committee, a Federal advisory committee that has rural representation and brings rural issues directly to the Commission so we can look at and address those issues.

On the policy front, as I mentioned, we have direct responsibility for a number of key areas such as slamming, telephone consumer protection such as the Do-Not-Call List that was just recently--those rules that were just recently adopted by the Commission, truth in billing, and access for individuals with disabilities. Issues that are specifically directed to rural America and rural Americans, such as broadband, wireless services in rural area, the notice of inquiry that was recently done by the Wireless Telecommunications Bureau, those kinds of issues we coordinate with the other bureaus and work with them to ensure, as I mentioned, that consumer perspectives are taken into consideration.

On our intergovernmental coordination front we do governments, government consultation with federally recognized tribes on historic preservation issues, environmental issues, and other issues that are of key concern to the tribes. We oversee and staff the Local and Government Advisory Committee, which has rural representation. We oversee the Federal and State Joint Conference on Advanced Services, which is aimed at deploying broadband services and, of course, those services are key to rural America, and we coordinate the FCC's participation in interagency work groups.

Resolution of rural-related inquiries and complaints is, of course, another key area. As I mentioned, we have direct

contact with consumers on a daily basis. We've been involved in wireless service quality issues facilitating discussions between the National Association of Regulatory Utility Commissioners and the wireless industries. We've also helped try to identify wireless services providers that serve their areas so they can contact those service providers and try and bring services to the reservation, and we handle consumer complaints and try and mediate those to the satisfaction of the consumer. Billing coverage and contract terms in the wireless area have been of key concern.

Just to sum it up, our role, like that of the Commission overall, is to ensure that quality affordable telecommunications services are brought to all areas of the country, and particularly rural America. CGB is endeavoring to develop rural outreach initiatives that promote access to basic and advanced services and to establish beneficial relationships across the board with governmental agencies at all levels.

We are delighted to be working with USDA. I look forward to hearing from your other speakers and to learning from them and to individual discussion. So, thank you very much for your time and attention.

(Applause.)

MR. THIEMAN: Thank you, Kris Monteith.

Next up we have Bill Maher, the Chief FCC Wireline Competition Bureau, Wireline Programs and Universal Service. Bill, come on up and we'll take care of your program here.

MR. MAHER: Okay, Mike, thank you very much. This is a wireless initiative kickoff, and I'm a wireline regulator. The reason I'm here is because the Wireline Bureau of the FCC oversees the Universal Service Programs that the FCC and Congress have initiated for rural America. So, in discussing universal service, what I want to start off with is just saying what is universal service? Well, it's an evolving level of telecom service that is provided to the American public, rural and urban alike, at affordable rates. The FCC, with assistance and advice from the states, defines it, and that affordable service is supported in part by the Federal Universal Service Fund.
As far as universal service and its history, this has been a major goal of telecommunications policy in the United States since 1934. And that 1934 Act stated this goal in very general terms, and the FCC and the state regulators implemented the goal along with RUS through the period up through 1996, when the Telecommunications Act really took this universal service concept and added some teeth to it. Not only did it codify the notion of providing universal service support, but it also expanded the FCC's historic commitment. And it did that by not just focusing on keeping rates low in rural areas, but also in defining universal

service programs to help schools and libraries and rural health care providers receive telecommunications services.

At the same time universal service moved from a system of implicit support by rates, regulated rates supporting various aspects of rural service, to a more explicit support mechanism. And, indeed, the '96 Act, as the slide shows, has several guiding principles: explicit support being one of them, affordable rates being codified, the need for that specific predictable and sufficient support again being made the law of the land as well as addressing a very difficult issue and one that's of great concern to wireless and wireline providers alike, which is, you know, how do you contribute to universal service?

The FCC in implementing the '96 Act had a couple of more guiding principles, competitive neutrality, and also the need for portable support among competitors. You know, a buzzword, a buzz phrase, I guess, that you often hear about universal service is that it has to be promoted, and the FCC spends a lot of time promoting universal service, but really it's a team effort, and the teams are kicking off in part today. You know, carriers and carriers' customers contribute to the Universal Service Fund. The recipients of universal service support, which could be wirelines and wireless companies in rural areas, they could be schools, libraries, rural health care providers, they implement that goal of getting service out there at affordable rates. Federal and state regulators develop the policies that are implemented, and finally there's a third party administrator, the Universal Service Administrative Company that administers the Fund under the FCC's rules.

The Universal Service Fund has four major components with slightly different goals. The High Cost Fund is one that attempts to ensure that service in rural, high cost areas are at rates that are comparable to service at urban rates. The Low Income Program that Kris mentioned providing information, that provides support to low income customers and Universal Service reimburses those telephone wireline and wireless carriers who provide that support. And as I mentioned, there's both rural health care and schools and libraries programs that provide for service discounts for those particular groups.

Now, who contributes to universal service? Well, as I mentioned before, interstate telecommunications carriers contribute. That's mandatory under the Communications Act. Other providers of interstate telecommunications--and that's a term of art--telecommunications in the Act is different from telecommunications service, and it has different consequences, but other providers of telecommunications, if the FCC finds it to be in the public interest also may provide--may contribute, and there's a de minimis exception which applies to most rural carriers, and that would be if their contributions to universal service on a yearly basis are less than $10,000.

As far as contributions to universal service, just a snapshot of who contributes from 2002. If you can see the interexchange carriers, the long-distance carriers are responsible for most of the contributions, followed by the local exchange carriers and the rural wireless--the wireless industry overall coming in at 15 percent of contributions. That was 2002. There have been some rule changes at the FCC. Wireless contributions as a percentage of the total are increasing.

How much support are we talking about here? Well, overall for 2002, it was close to $6 billion, and I mentioned the four components of universal service funding. You can see the breakout here. The largest component was the high cost support at 2.9 billion. You'll notice that the smallest component here, rural health care, is at 27 million. As I'll mention later on, the FCC is looking at how to simplify the rules so that available monies can be used more easily by rural health care providers.

Now, when we talk generally about what is supported service, what received universal service funding, especially this high cost and this low income support, well, you know what it is? It's what I think most Americans would consider plain old telephone service in the sense that it's single party, no party lines. It's voice grade, it's touchtone, it has access to 911, it has access to interexchange services, and I will say that even though right now it's a plain vanilla definition, there's an ongoing proceeding at the FCC looking at whether changes are necessary to this definition of supported service, and we expect FCC action in early July on that.

Now, I mentioned these four different components of universal service and what goes into the fund. Well, we have components upon components. For example, in the high cost support mechanism there are six defined kind of--it says components on the slide, and they're really subcomponents, they're different types of support with different specific purposes, and I will leave it to the regulatory counsel--I see a few in the room--to advise their clients on what all of these are. But the goal, of course, is to make sure that rates are affordable comparatively between rural and urban areas.

The schools and libraries program, again, is in essence a discount program. Eligible schools and libraries get the discounts for three types of offerings: telecom services, Internet access, and internal connections; that is, the wiring of the schools. And this discount is based on the percentage of students who are eligible for the School Lunch Program, and it occurs on a sliding scale. There's a reimbursement for service providers, and this could include wireless as well as wireline providers. The schools and libraries are the ones who apply, and they engage the service providers, and they have to competitively bid out their for services every year, and this is a program that's

capped at $2.25 billion. We've been working very hard to make sure that that money gets out to American schoolchildren and library users and that it does so without waste, fraud, and abuse.

I've also mentioned the low income program. This, too, that's a component of universal service with subcomponents, and there's two major subcomponents. One is Linkup, and that provides a discount for--basically for poor people to get telephone service installed, and that can be a very significant discount. Lifeline is a monthly discount, and there's a needs-based test for telecom customers to qualify.

Rural health care I've touched on. Rural health care institutions, it's a pretty broad array of institutions that conceivably could qualify for the rural health care discounts. Again, any telecommunications service provider, wireless, wireline, long-distance, local can provide support under this program to the health care providers. And this is just some more details on rural health care. Again, the notion is discounts for telecommunications service and somewhat more limited discounts for access to the Internet. As you can see, this program is capped. There's a limit of $400 million per year. We're looking to jumpstart this program. There's an ongoing FCC proceeding on it because, for example, in 2002, the Rural Health Care Program only disbursed $27 million. Maybe that's handling the needs of rural America. We want to be sure it's handling the needs.

An important issue that the FCC has been facing between wireless and wireline carriers and incumbents and competitive entrants has been the issue of what is the role of universal service support when there are competing carriers. As the slide says, in general the wireline and the wireless competitors can qualify to receive universal service support. There's a classification, the so-called ETC designation that has to be done by either the state commission or the FCC.

The interesting thing about universal service funding among competitors is that the competitive ETCs currently receive the same per line amount of high cost support that an incumbent would receive. So, a wireless competitor would on a per-line basis receive the same per line amount of high cost support that the wired, perhaps the wired incumbent receives. There are questions that the FCC and the states are addressing in yet another pending proceeding at the FCC as to whether that rule needs some adjustment. That's being considered in the Federal State Joint Board. Similarly, competitive ETCs, which could be wireless or wireline competitors, receive low income support based on the same criteria as the incumbents do.

That's my overview of universal service in just about ten minutes, maybe a little bit more. My contact information is up there. I laud the Department of Agriculture, as well as my colleagues in the Wireless Bureau for kicking this

initiative off, and I look forward to working with them and with you as it proceeds. Thanks.

(Applause.)

MR. THIEMAN: Thank you, Bill. Thanks for telling us about how the universal funds are used. Having come from the telecom industry, it's really good to know where all those charges go and see all the good that's being done there.

Next up I'd like to introduce John Muleta, who's the Chief of the FCC Wireless Telecommunications Bureau. John.

(Applause.)

MR. MULETA: Thank you, everybody, for coming to this event. I'm terribly excited to kicking off this initiative, and I hope to have a series of meetings with my partners at USDA and RUS as well as other Federal partners as we sort of develop new thinking for wireless services in rural America.

The main reason that we are here today is to educate our Federal partners in the sort of Washington constituency about the opportunities for wireless access in rural communities and how FCC can help with the digital migration of rural communities. You know, for those--all of us in Washington are aware that we're on a digital migration. We're becoming a very sophisticated industry with sort of touching every person in America. That's wireless services. And what we want to do is we want to get the word out about how we can work in a coordinated fashion to deploy these services to rural America.

The second point for us is to sort of prime the pump in terms of greater focus from the Wireless Bureau on new initiatives regarding wireless services for rural communities. So, that's why we're here. What I'll do is I'll give you sort of an overview of the wireless market from our perspective, talk a little bit about our authority, the FCC's authority when it comes to wireless services, and then show you the sort of unparalleled success that the FCC has had in the deployment of wireless services in America and sort of see what the next set of challenges are.

The second set of topics will be sort of how do we access spectrum in rural markets, and the third focus will be sort of what's happening in public safety and how that's affected by wireless services, and finally a talk about some initiatives both ongoing and upcoming initiatives that the Wireless Bureau is planning.

Before I move on to that, I do sincerely want to thank Administrator Legg for her support and as well as Bobbie Purcell for her support of this. This started out of a conversation a few months ago trying to talk about how do we get--as a result of the ruling NOI that the FCC had done, one of the things we talked about is sort of what do we do

about capital formation and things like that. So we decided to meet with the RUS program and decided that we needed coordination. So, I really want to thank these folks for their support, as well as the individuals who put it together, Nancy Plonn, Mike Thieman, Dave Safford (ph), Cindy Schreiber (ph) from the Wireless Bureau. So, I thank all of you for your support.

What has happened in wireless? First of all, wireless is one of those markets that the FCC sort of has a great deal of authority over. The Congress in its wisdom has made wireless services a focus of due regulatory market approaches, which fits well with sort of the technological imperatives that underlie wireless. The FCC sort of declined from any sort of rate regulation in this approach, and it's also removed as many entry barriers. The result has been there is 142 million people at the end of the year--that's close to over 50 percent of the population on a per capita basis that has access to wireless services. To think about that this industry, the commercial mobile industry, the cell phone industry did not exist 20 years ago, this year is the 20th anniversary of cell phones, it's just outstanding to go from zero to 140 million people in this time is just a phenomenal success and something that we should all be proud of. 200,000 jobs in the industry, in the telecommunications industry, are directly attributable to wireless. $127 billion have been invested as of 2002, and then the minutes, the usage rate has gone up dramatically by 200 percent, and the price has gone down by 74 percent. So, this is a fantastic success story, something that speaks about the sort of--both Congress' wisdom and the FCC's approach to the regulating wireless industry has been the right call.

One of the things that we have to do, though, is that although there is effective competition in the wireless industry, and we look at effective competition through a variety of factors, there is a difference in terms of the number of service providers in the marketplace between rural and urban markets. We just took one statistic in terms of measuring, you know, rural versus urban looking at counties with population densities of greater or less than 100 people per square mile, and this proxy shows that there's sort of twice the number of providers in urban markets than there are in rural markets.

So, the challenge here for us is, you know, this might lead to effective competition in voice services, which is what we found. It's not clear that this model, this sort of discrepancy should stay going forward. So, one of the challenges for us is to figure out a way of increasing levels of competition and satisfaction in both markets, and therefore, that's why we're here today.

One of the things that's driving us as well is that technology sort of is breaking down the traditional limitations of wireless. Wireless used to be, you know, the

sort of nature of radio propagation, had limitations in how broadly applicable it could be and what sort of services could be provided over it. Last year under the leadership of Chairman Powell there is a spectrum policy task force that was put together, and the policy task force really looked at sort of how do we revamp our policies for providing for managing spectrum from the FCC's authority.

Clearly--I mean, one of the fundamental findings of that policy task force is that spectrum access as opposed to spectrum scarcity was the problem, meaning that there's a lot of spectrum available when you include all of the various vectors that you need to look at for wireless services. So, that's geography, time, and space, and then you understand that there is a tremendous amount of spectrum available. It's not necessarily scarce, it's just that the ways we've been looking at it limit its access.

What that leads you to think is that when you're focusing on policy reforms, flexibility is sort of key. And flexibility would be one of those things that would add value to the rural communities and bring in new service providers and new services to rural communities. Specifically the task force looked at a few things: flexibility and regulation of power levels, which is a technology issue, secondary markets for enabling sort of the sharing of the resources, wireless resources, rethinking the sort of geographic definition of rural areas and the licensing associated with that, and then, you know, bringing in new sort of legal constructs into play such as easements that might facilitate greater access to spectrum in the markets, and then, you know, thinking through about using of unlicensed band. For those of you that are not familiar with the telecom industry, unlicensed is, you know, sort of a quick definition of that would be sort of the Wi-Fi, hot spot type of technologies essentially sort of, you know, a different construct than sort of the licensed approach that has been the norm for wireless services.

The benefit of the spectrum policy task force is it's sort of given us a road map on how we should approach regulation both for urban and rural markets. But clearly we think that the greatest impact of some of these thinkings would be in the rural area.

What's our strategic plan from the Wireless Bureau? I think it's always important to understand now that we've given you an overview of where we are, one thing that we're trying to do in the Wireless Bureau is we want to bring in innovative policies, innovative technologies, and innovative rules and regulations to the marketplace to provide spectrum access so that that sort of transport mechanism is widely available and then to increase the number of wireless enabled services that can come in, sort of applications. So, broadband is sort of an easy term, but really what we're talking about is increasing the number of services that can be provided over the wireless medium, moving it from tethered services to

untethered services and adding value to people. So, you know, increasing the sort of personal nature of telecommunications services is one of our very broad goals.

The other things that we're focusing on as part of our strategic plan is to increase the level of customer service that we provide to the American public including the rural communities. These are things, sort of public goods that affect all of us, you know; the sort of commercial intent might not on an individual basis make sense, but from a public policy perspective adds to the overall value of our country. So, E 911, local number portability, interference management, the sort of auctions technology in our licensing database which tells you who's operating where are all parts of our customer service function. This initiative in our outreach program is also part of this customer service focus that we've engaged in or we're beginning to engage in.

In terms of spectrum access, I think again focusing on the transport mechanism and then the types of services and for those of you who can't see from the back, this will all be available, so I won't go into greater detail about what things we're talking about there.

One of the things that people talk about is, you know, what is wireless capable of doing in the rural markets. As this chart shows, we have sort of four different kinds of services we can talk about, sort of mobility telephone services, the fixed wireless services, the paging narrowband types of services and sort of the public safety spectrum. These are the things on the column on the right-hand side--on the left-hand side. Well, I guess it's your right-hand side. I can't quite figure it out.

The capabilities as you can see on that chart is they're pretty much filled up, so we can provide public safety services both in the commercial and noncommercial context, basic access services, you know, just sort of being able to get dial tone, voice, long-distance services, Internet access, Telemedicine, Distance Learning, E Learning technologies are all available in wireless services and across all of the spectrum of technologies that we have.

One of the key methodologies for us getting spectrum out for those of you that are not familiar with the FCC has been our auctions program. Out auctions program was initiated in 1994 by Congress, and the sort of historical process for getting spectrum had been somewhat of a luck of the draw. It's either comparative hearings in which you sort of have a beauty contest and you have some, you know, relatively random person at the FCC make a decision as to who's better qualified to provide these services, and then we moved away from that and went to lotteries, which turned out to be even more random and sort of--there were some issues with that, sort of insiders knowing how to play that game.

So, I think what happened was Congress basically decided that the best way to do it was to use auctions. So, these are the things that people from the Commission for many years had been advocating. It's a competitively neutral way of designating licenses. Since 1994 when the program began, 1993 was when the authority was provided. 45 auctions have taken place, 50,000 licenses have been auctioned. The U.S. Treasury has gained $14.4 billion, and 2,600 qualified bidders have participated.

The sort of statutory intent again was a way of providing licenses for operators where there is mutual exclusivity, where no two people could own the same license. This was sort of a way of achieving this goal in a way that could not be gamed. And the Congress thought if you sort of removed the constraints on that, the development in new services and new players could come in to benefit the public.

Another key intent in that which kind of brings us back to today was to sort of provide access for those in the rural communities. Again, Congress understood that commercial carriers, you know, the very nature of wireless made it difficult for providing--you know, you tend to focus on denser markets as opposed to less dense markets, and so Congress made it a specific intent that we focus on rural areas.

Exemptions were made. I think they'll make sense to you, so public safety, radio services are exempt from auctions. The digital television license are exempt. Noncommercial educational and public broadcast stations are exempt from auctions, and international and global satellite communications are exempt. All of them have their own individual reasons, and you know, if you have any questions about that, we can talk at a later time.

What are the results? 78 percent of the winners claim to be either small, very small or entrepreneur businesses and won 54 percent of the licenses. 184--I mean 11 percent of the winners were rural telcos who won four percent of the licenses; 11 percent were women bidders with four percent of the licenses, and 11 percent were minority bidders. So, this has been an unqualified success in terms of getting a lot more people to participate in the wireless business.

There are going to be future allocations; that's one of the reasons that we're sort of trying to prime the pump. There is a 700 megahertz, which is a UHF TV band. Once sort of the broadcasters leave that spectrum in the 2006 time frame, the idea would be to auction that and for us to develop new rules for permitting, you know, greater service to rural markets potentially using that spectrum. DBS and MVDDS are sort of kissing cousins of technology, and they also provide service into rural America, so those auctions are potentially upcoming. Advanced wireless services in the parlance of wireless technologies, it's called a 3G plus, so these are advanced wireless services. Their spectrum set

aside coming largely from Federal DOD users, and we're in the process of working the service rules there. So, there's greater opportunities of rural markets using this variety of spectrum that's in the pipeline.

Talking about auctions, one of the intents in that has been to provide small businesses based on sort of individualized qualifications at the time of each auction, provided them with bidding credits. For the future for the upcoming auctions, the rules would need to be developed, but one thing I wanted to show you was an example of how the bidding credits work. In auction 44, if your annual gross revenues as a small business was under $3 million, the bidding credit was 35 percent for--and $3 million to $20 million was 25 percent, and $20 million to $40 million, that was 15 percent. Essentially this is sort of a plus factor in terms of your cost of capital or your cost--your cap X plan. This is a benefit for the small business players to come in and potentially fill the gaps that exist that are not provided by the bigger carriers.

Another area that we focus on is sort of the tribal land bidding credits. In 2000 the Commission came out with rules and started applying them for this particular program. The credit amount is $300,000 for the first 200 square miles of qualifying tribal lands and then $1,500 each for each additional square mile that's covered. In order to qualify for this and get the benefit of it, the carrier has to promise to provide 75 percent coverage of the area within three years. Essentially you have build out within a specified time to cover a specified part of the population. This has been seven out of the last 12 auctions have resulted in 34 bidders expressing interest in the bidding credits. These include the broadband, PCS, CNF blocks, paging, narrowband, PCS, the 1,670, 1,675 nationwide license that just took place earlier this spring lower 700 megahertz, the public coast licensees. So, this is covering a wide area, a wide number of services, and a lot of people have been interested in it.

One of the things that we're thinking about changing is we have issued a notice of proposed rulemaking seeking comment on how to expand the coverage area of applicability of adjacent nontribal areas. So, again, this is bringing a focus on rural communities that are adjacent to each other, and we're trying to figure out ways of sort of becoming more inclusive as opposed to being less.

One of the other things that we've done, I think, which is a very important proceeding that we recently completed is a secondary markets proceeding, which has been around for a while, and the Wireless Bureau was able to get it out a couple of months ago. It authorized spectrum leasing as a policy matter, and it also adopts a streamlined process for allowing leases into the marketplace.

The benefit in the rural context is this allows sort of for better capital allocation decisions. It allows for better buildout strategies and a sort of sharing of resources on buildout. So, for example, in rural markets you sort of have the sort of roadways and the towns, and it might not make a lot of sense to be able to operate in both parts because they have different buildout characteristics, so you might want to leave the highways to somebody else who leases a spectrum and then concentrate your efforts on the urban or on the town aspects of the buildout. So, this is the kind of allocation decisions that are allowed under the secondary markets proceeding.

It also sort of separates the sort of traditional tie that the FCC has made between licenses and facilities, which we've departed from in other contexts, including international submarine cables, again driven largely by, I think, capital considerations in the marketplace, in the financial marketplace. And what this does is that, you know, there are people who are better at acquiring licenses, and there are people better at operating businesses, and it allows, sort of, people to pick and choose in terms of what they want to do.

Moving on, I think one of the key personal aspects of wireless services is it acts for the general public good by making the personal safety a high priority. It also allows for our nation's first responders and others to focus, to communicate with each other and with other people that are affected, such as critical infrastructure industries, such as power companies, nuclear plants, you know, private health care facility providers, and so on and so forth. I think traditionally we've allocated 47 megahertz for voice communications for public safety. An additional 24 megahertz has been allocated in the 700 megahertz band, and that will become available as the broadcasters leave that band as part of the digital TV migration, and in 2002 and 2003 we allocated an additional 50 megahertz in the 4.9 gigahertz band.

I'll focus a little bit on the 4.9 gigahertz band because it shows some of the evolution in our thinking of how we can get people to work together. So, one of the most important things in the 4.9 gigahertz is allowing public safety agencies to designate certain commercial entities, non-public safety entities, to work with them in providing services in that band. This goes to the reduction of capital required to deploy services. It also starts integrating our public safety systems, which now after 911 transverse a wide number of industries, not just including public safety.

E 911 is a major initiative that we've been engaged in. This is crucial information that allows the emergency first responder community to figure out where the call is coming from when they get a 911 call. There are two phases of E 911. Phase 1 tells you generally where the call is coming

from within sort of the next available cell site. Phase 2 is when, through a variety of means, different technologies you can identify the exact location of where the caller is coming from and the number that's associated with it. Phase 2, we had a kickoff coordination about in April, end of April beginning of May, and we're trying to get all the parties involved in E 911 to play together. We focused a great deal on the carriers. The carriers have made great strides. There are issues in the rural context, and we're hoping to address those in the future, and we're hoping this kind of initiative will help us understand both the consumer as well as carrier interest in rural E 911 services.

In December of 2002 we released a notice of inquiry that sort of went in to figuring out how we can harmonize certain issues such as what are rural areas and do we have a consistent definition within the FCC as well as with other Federal and state programs, and we also reviewed the effectiveness of current rural programs. Right now the Bureau is also investigating ways of changing our technical rules to facilitate greater rural access in two areas there: reform of our current performance requirements such as the type of service area, the type of coverage that we require for the licensees, the technical and operational rules ranging from power to facilities sharing. Those kinds of things for rural service providers are under consideration, and we hope to have some thoughts solidify over the next few months.

As part of this initiative what I'd like to do is let you know that we have a web site that we've been working with the RUS, USDRUS, to sort of share and link information and allow outside parties and our other federal partners and consumers to get an idea what we're up to and how they can contact us. We'll talk about upcoming events, our respective releases, and links and related sites.

What I'd like to do is I'd like to close by, you know, pointing out to our partners in USDRUS as well as our other Federal partners, sort of a joint action plan. We've had a great turnout here, we've got a lot of people interested in the subject, so what I'd like to do is to just sort of offer our thoughts on what a joint action plan going forward would be. Remember, today is just the kickoff. What we hope to do is have a series of things that take place so we can talk about and show results from.

I think one of the key things that we need to do is to harmonize our outreach. You know, we have different constituencies, both in the consumer as well as the service provider side, and I think we need to sort of harmonize our approach to them. The message we should be telling them from a federal program perspective should be similar because I think it is. It's just sort of we use different language, we use different acronyms, and, you know, we just sort of need to focus on harmonizing our outreach. I invite both our USDA, SBA, HHS, DOT, all of these folks have different

programs that affect rural folks, and we should be talking and coming up with sort of a lexicon that makes sense to our communities.

The second thing that I propose that we do is sort of harmonize our rules and regulations. For example, you know, our definition of broadband at the FCC and within potentially the Wireless Bureau is different than that of the USDRUS. Our long-term goals and the policies that we put into effect might also be different. The intent is the same, which is to build rural communities. It's just the way we approach it is different. And so I think what we need to do is to come up with a way of working together to harmonize our rules and regulation and our interpretation of our policy outcomes.

The last thing, what I hope to propose and hope to work on is to--nothing makes all of this a reality other than a specific example. If we can sort of find a community that we can sort of put our energies into and make them a shining example of how all of us, all of our Federal partners including USDRUS, FCC can work together to bring wireless broadband to that community, I think that would be a great outcome, and that would be an example for other communities to follow the lead because this simply can't happen with us. We need the involvement of the community, the community's leaders, the community's businesses, and the community's residents. So, sort of figuring out a way on how we can identify a model project in working to put the other two things that we're doing, the outreach harmonization and harmonization of our rules and regulation into play would be fantastic next step.

So, with that, I want to thank everybody for coming here and again, I want to thank our partners at USDRUS and Administrator Legg for the great support and also thank all the Commissioners and Chairman Powell for the support that they've given us as we've undertaken this initiative. Thank you very much.

(Applause.)

MR. THIEMAN: Thank you, John Muleta.

I'd like to introduce Roberta Purcell from USDA Rural Development. She is the RUS Assistant Administrator for the Telecommunications Programs.

(Applause.)

MS. PURCELL: Good morning. I'd like to welcome everyone for coming today. Thank you for coming. It's great to see so many people here for this first of what I hope are going to be many outreach initiative meetings that we hold together jointly with the FCC. This is truly exciting for us.

This morning both Administrator Legg and Chairman Powell in their opening comments indicated what our mission is here today, not only for our initial kickoff meeting and outreach, but the greater mission of ensuring that our rural citizens have access to modern, advanced telecommunications services in the same form and manner that our urban and suburban citizens in this country have, and that to me is so exciting.

What I am so thrilled about being here today is the fact that this gives us the opportunity to hopefully get that word out to more people, and I must say as a career government bureaucrat any time two government agencies can come together in a collaborative effort to try to make policies that complement each other, that try to have initiatives to work with the public in a way that's more effective and efficient, I think that is a wonderful approach to take, and we look at our Federal partners in the FCC and thank them for that and this ability, and we hope that it will further our joint mission.

Now that we know why we're here today, for those of you who may not know who we are, I'm going to take a few minutes with my colleague, Ken Chandler, to discuss who we are, what we do, the products and services that we have to offer, and how those of you in the audience that are interested may apply for those products and services.

For the last 53 years the Rural Utilities Service Telecommunication Program has been financing small, local exchange carriers in rural America to bring modern advanced telecommunications services to those rural citizens. While we do it on a technology-neutral basis, we finance those wireline and wireless technologies, within the last couple of years we have made revisions to our regulations that make financing wireless service much easier, and that is our focus here today and one of the options that we want to pursue.

Most recently we, in the last three years, have begun a new broadband initiative to bring broadband service, high-speed Internet broadband service to rural America. In our traditional Infrastructure Program I will cover this morning, we are limited to communities of 5,000 people or less. In our new Broadband Program we're allowed to finance communities of up to 20,000 rural citizens, which enables us to reach a lot more people in rural America, and we're real excited about that.

As I said earlier, we're going to focus this morning on our two big lending programs, our traditional Infrastructure Program and our new Broadband Program, but I did want to let you know that we have a lot of other products and services that are available, most noticeably our Distance Learning and Telemedicine Loan and Grant Program. Once that broadband infrastructure is in place, the Distance Learning and Telemedicine Program is an incredible adjunct to any

community that has broadband capability because it absolutely brings those educational opportunities and those lifesaving medical opportunities to small rural communities that otherwise might not be available.

So, if you are working in community development and if you have a community where broadband is available, or if you work with us in the FCC to bring broadband service to that community, then I would ask you to take a look at our Distance Learning and Telemedicine Loan Grant Program so that you can use that broadband service to a tremendous end to that community in both an educational and health care initiative.

We also have a Weather Radio Grant Program to bring weather radio alert systems to rural areas, a Local TV Loan Guarantee Program which we administer with three other government agencies to ensure that satellite providers, the subscribers, and others in rural areas have access to their local TV channels, and most recently we have been given a $15 million grant to provide grants for digital translators to convert over to digital capacity public television stations in rural areas. So, as you can see, we have quite an extensive portfolio.

Again this morning I'm going to highlight that in two areas, our Infrastructure Program which does require broadband-capable facilities and our new Broadband Program. We are a facilities financier. We do the hard costs, the infrastructure, the buildings, the equipment. We do not lend for operating costs. So, everything that we're going to talk about this morning is facilities-oriented.

Who is eligible? I'm going to talk first about our Infrastructure Program. This is a program that we have run for the last 53 years. As I said earlier, we have been lending for 53 years to bring service to rural America. It can be to any local exchange carrier whether it is an investor-owned, a small mom-and-pop company, a cooperative entity, a municipality, an LLC, anyone that is attempting to serve rural areas.

As I indicated earlier also, we're facilities-based, so we finance primarily new construction and improvements. We will also finance expansions into new and unserved areas. We will finance acquisitions and refinancing. Our refinancing is limited to 40 percent of the total loan package. Our acquisition costs are limited to 50 percent of the total loan package, or just under 49 percent.

Within our Infrastructure Program we have several types of financing available. First and foremost, our hardship loans. Generally speaking in any other economy but the one we're in right now, this is probably our best product because it has a five percent fixed interest rate for the life of the loan. Because it normally is such a wonderful interest rate, we sort of limit who is eligible for it, so

it has to be an area with the density of four subscribers or less, and a TIER of one to three. We have $75 million available in that program for this year.

Now, with interest rates where they are right now, you might say well, that maybe is not the program that I want to apply for. The one thing I will tell you is, we lend for, number one, the life of the facilities; but, number two, the interest rate is set at the time of the event. So, if you get a loan from us today and the interest rates are maybe three and a half to four percent, you don't draw the money down maybe to complete the project for another year or two and interest rates are seven or eight percent, when you draw down money, that's when the interest rate is set. So, this program still at five percent is a fixed rate regardless of when you draw the money down.

Cost of money loans, that's what I was just talking about. This year alone we have $300 million available. This is our typical type of loan. Monies are advanced for the life of the assets that were financed at the cost of money to the treasury. We complement that money with our Rural Telephone Bank money. So, when you come in to us for a regular what we will say concurrent loan, you'll get approximately 75 percent from the cost of money program, 25 percent from the Rural Telephone Bank.

I could talk to you about the Rural Telephone Bank for hours. I won't. But needless to say right now it is a governmental entity that is undergoing privatization so that hopefully one day that will be a private source of capital for financing rural telecommunications, and this year we have $175 million available there.

The final program within our Infrastructure Program--and remember, all of these that I've talked about up to this point are limited to serve communities of 5,000 people or less--is our Federal Financing Bank loans which we guarantee. They're actually made by the Federal Financing Bank in the Department of Treasury. We provide a hundred percent guarantee. Again, we make loans at the cost of money plus 1/8 of a percent to the FFB.

Well, you might say why would I come in and get an FFB loan and pay that extra 1/8 of a percent when I can get a cost of money loan. The reason you might want to do it is in this program and this program alone you can borrow short term up to three months--as low as, I'm sorry, three months. So, if you have someone that can track your interest rates, look what happens. You can come in for a 90-day loan under FFB right now at 1 percent, as low as 1 percent on a seven-year loan. So, if you have someone who could track that financing and watch it as it rolls over every 90 days, what an incredible offer. Even on our other cost of money loans you're probably looking at right now somewhere between three and a half to four percent for the life of the facilities.

I also want to talk on our new Broadband Program. This is something that we've had in a pilot form for the last two years, and in 2002, under the USDA Farm Bill we got a permanent six-year program to bring broadband service and, as I said earlier, to communities of 20,000 people or less. Once again, it must be technology-neutral, but I will tell you we are seeing a lot of wireless applications to our new Broadband Program.

First and foremost, it must provide high-speed data transmission, and we have developed the FCC's definition of broadband, 200 kilobits upstream and downstream, for this program. As I said earlier, it has to be a community of 20,000 or less. It cannot be located in a standard metropolitan statistical area. And obviously the entity that comes in to us for financing has to be able to find a mortgage and a contract with us and be able to deliver the service.

Why now? The SMSA requirement does, in fact, exclude quite a number of rural communities of 20,000 inhabitants or less. We have had numerous discussions with our congressional representatives and their staffs, and we have indications to believe that in the very near future this requirement may be eliminated or significantly changed. But right now that is a requirement, it is in the legislation, and it is something that we do need to deal with.

For public bodies, for municipalities, they were required to wait 90 days from the beginning of this program, which was January 30th of this. That 90 days has passed. So, now a municipality is eligible to come in and borrow from us as long as no one is offering broadband service or has committed to offer broadband service in that area. We do not lend to individuals. We do not lend to partnerships, and by law, we cannot lend to any company that is serving more than two percent of the telephone subscriber lines in the United States.

Once again, we're facilities-based. Funds can be used for new construction, for acquisition. It can be used for leasing up to two years. We can also finance facilities that are located in a non-rural area as long as the intent of those facilities is to serve the rural area, and oftentimes that's very important with the location of towers, particularly in a wireless operation as to where you can serve because of geographical and topographical restrictions. We can also lend for acquisition and refinancing with the same caveats that we had in our earlier Infrastructure Program.

We cannot lend to acquire the stock facilities or equipment of an affiliate, to finance customer terminal equipment or inside wiring, or vehicles not primarily used in construction. Also, we cannot use funds to finance broadband facilities that are leased under an offering lease. It has to be a capital lease to finance systems that

are not designed to our technical specifications for mergers and consolidations or, as I indicated earlier, operating costs.

How much money do we have? That's really what you want to know, isn't it? That's kind of the bottom line. In the Farm Bill they gave us mandatory funding of $20 million a year for 2002 through 2005. Well, you may say $20 million a year doesn't sound like much, and then only $10 million in year six and seven. That is subsidy money. That actually equates to a lending level of $728 million per year for the first four years, and clearly half of that $364 million for the last two years. So, for this year we had money in '02, and it is no year money, so when we open the doors to this program on January 30th of '03, of this year, we had two years of funding available. We had the '02 money and the '03 money. More than $1.4 billion of funding available.

There are three programs within broadband, three lending programs: a 4 percent program, a cost of money program, and a guaranteed program. So, we broke out the money $80 million for the 4 percent, $80 to the guarantee, and almost $1.3 billion available in broadband funding for this year. We have about $300 million worth of applications in-house. So, even if we fund every one of those, we still have over a billion dollars available. Three funding streams as I indicated, 4 percent. Pretty obvious what the interest rate on that is. 4 percent.

We have private lender guarantees of up to 80 percent in direct treasury rate loans. Because of a guaranteed 4 percent interest rate regardless of how interest rates go in the future, we have put some limitations on this. We're trying to target this money to our most rural, most economically challenged communities. Therefore, it has to go to serve a community of 2,500 people or less. It has to be located in a county where the per capita income is 55 percent of the national average. There can be no more than 10 people per square mile, and we make those loans for no more than $5 million. They are capped.

However, if you want to go into a community and the project is going to be seven or eight million dollars, we can make you a $5 million loan at 4 percent, and we can balance the rest with cost of money. Again, this guide is a little old, but we lend for the cost of money up to the life of the facilities and right now, as I said earlier, you're looking at three and a half to 4 percent.

Our guarantee program is an 80 percent guarantee. So, an entity actually has to go out, find private financing, come to us, and we will guarantee that loan up to 80 percent. Again, the terms are set by the private lender in that particular case. As I said many times before, in all of our programs we lend for the life of the facilities. In this Broadband Program interest is due and payable as it accrues. We do defer principal for the very first year. Minimum

amount of any loan is $100,000. Our maximum $5 million cap applies only to our 4 percent loans, and generally speaking, we do take a first lien on the assets to provide the security for our loans.

In closing, I would just like to thank John Muleta, Nancy Plonn for having the vision at the FCC to come to us with this idea and with this initiative and our very own Mike Thieman and Dave Safford for all of their efforts today. We look forward to meeting with you after this. At this point, I'll turn it right back over to Mike. Thank you very much.

(Applause.)

MR. THIEMAN: Thank you very much, Bobbie, for showing us the money. Now, let's see what we can do to spend it.

All right, I'd like to introduce at this time Ken Chandler. He's the Director of the USDA RUS Telecommunications Program. Ken, please come on up.

(Applause.)

MR. CHANDLER: Thanks, Mike. Well, hopefully they saved the best for last. We're going to run through this pretty quickly here.

This slide here gives the details on who I am. Notice at the bottom there's our web site. If you go there, you can find out all the information about all of our programs. You can also find contact information. If you're interested in a particular program or services or whatever, you can find out who to contact there.

Just a little bit about how we're structured. For all of our programs in the Telecom Program except for the Broadband Loan Program, they reside in three areas or regions. I'm in the southwest area. We have a northwest area and an eastern area. For the broadband, that's going to be a separate division, and those will be handled separately. So, like I say, if you go to the web site, you can find out contact information on everybody.

I'm going to sort of zero in now on three areas and talk, expand a little bit on what Bobbie said as far as our programs are concerned. I'm going to talk about how some of the things we look at when we're reviewing an application for financial assistance and some of the ratios and things that we look at. I'll spend a little bit of time talking about the technical side, services and equipment and things that we can and cannot finance and maybe some of the things that are going on right now in the industry that's changing how they do things. And then lastly, since--I mean, every year we will have a couple of infrastructure loans to new entities. It may be in a salvage company that's never borrowed from us. It may be some new telecommunications entity that was formed.

In the wireless arena I'll talk about we're seeing lots of new start-ups or new companies, et cetera, so I'm going to--I'll spend a little bit of time talking about if you were a business wanting to get into that area and look to financing from us, what are some of the things you ought to look at or consider before you jump in.

Now, as far as the review of applications, we generally will look at three areas. We'll look at eligibility, which as Bobbie said, a lot of times that goes back to statute, the way Congress established the program, who's eligible to apply to it, and so sometimes that will determine whether we can make a loan or a grant or whatever to you based on eligibility. And then once that's satisfied and we know which program that we'd be dealing with, we'll review the application basically from two--look at it two ways. One is on the engineering and technical side, what does the applicant want to do, and can they do what they want to do in the way that they want to do it, and are their costs reasonable. And then the biggest one for us is feasibility. We look at the financial side of it and when we make loans, we expect to be paid back, and that's the only way we're going to make a loan, so we'll look at the feasibility. Will the applicant be able to pay us back.

Now, as far as financial requirements, when we do a feasibility study, what we generally do is we will look out either in a range of two to five years. The applicant can tell us; sometimes it's shorter, sometimes it's longer. What we will do is we will look at the projected revenues and expenses of that applicant for that year, let's just say the fifth year, and that's what we'll predicate our loan feasibility on because usually for most of these systems there's going to be a buildout period. You're going to start construction and it will take generally years to get everything constructed and be providing the services that you want to provide, and so we're going to look at, okay, once it's all built and you got your revenues, how do things look going forward as far as their ability to pay us back. We'll look at both historical financial data if it's an existing entity that has a track record. If it's a new start-up, there is no history, so we'll look at pro forma financial projections provided by the applicant.

Our main criteria--and this goes back to our statute--for most of our programs the main determining factor on whether it's feasible is TIER, Times Interest Earned Ratio, and I'll talk a little bit about that in this next slide. That calculation is the ratio of net income after taxes plus interest divided by interest expense, and by law we can't make a loan unless that ratio is at least 1. So basically what that means is you have some net income. If you don't have net income, then the TIER is going to be less than 1, and the loan in infeasible.

Some other ratios I'll talk about that may not be required but they may qualify you for a program or something we look at. Another one we look at is the net plan to debt ratio. We would like that to be greater than 1.2. We have one program--well, it's a sub program. We call it the Accelerated Loan Program, which is a way of speeding up the process of making a loan by considering if the applicant is one of our most financially healthy borrowers, maybe we don't need to look to give it the scrutiny we do some of the others because they're already demonstrating by these ratios that they're very healthy and they're able to get a loan and pay it back. This is a qualifier, if that ratio is at least 1.2.

Equity. We're a little bit different than maybe some of the other lenders in the Rural Telecom Program. We don't have a statutory or a defined equity or net worth level as far as qualifying for one of our loans. We'll usually--we'll look at it on a case-by-case basis. It depends on whether it's an operating company that a long track record or it's a new start-up. Suffice it to say that we're going to expect some equity to be there, but whether that's 20 percent, 5 percent, or what it is or whether it's cash or just other forms of equity, we'll sort of do on a case-by-case basis. And here again, this is another indicator that's used for that Accelerated Loan Program, the borrowers/applicants with a higher net worth or more qualified for that.

I did want to talk about operating funds, particularly for start-up companies or new businesses. This can be a problem because as I said, for a lot of the telecommunications-type plants, it's going to take a period of time to construct it. You're going to have to, if you're getting a loan, you've borrowed the money now, and you're starting to pay interest expense on the loan, and you've got all kinds of contracts, construction contracts and consultants' work, and et cetera, so you have a lot of expenses but you can't generate any revenues until you get the plant built, and so for new entities, this is very important is to have some way to finance your operating expenses until those revenues ramp up and that can be covered. And if you overlook this, you're going to have real problems. You may not be able to get there from here. You're going to be okay in maybe two or three or four years, but you got to get to that point.

We recommend that for new entities that you look at having about two years' worth of operating funds from the start, have those there to be available.

For our Broadband Program we have a special requirement that we actually--it's not a recommendation. We actually, depending on the applicant, we require one year's worth of operating expense, and I would say that we've been looking at in our other program where we don't have formal requirements, we're looking at this one year maybe across the board, especially, like I say, for new entities and even

in our other programs to make sure that they can stay solvent and operating until they generate their revenues.

On the technical side now, as Bobbie said, we primarily finance plants. We can do things like refinancing and acquisitions under--with certain restrictions, but all of our programs are basically financing plant.

We're end user-oriented. In other words, our constituents are the rural people, but we don't deliver our program directly to them ourselves. We work through some other company that borrows the money from us or we grant the money to them and they provide the services. And we're technology-neutral. In other words, we'll finance any kind of technology if it will provide the services and meet the requirements that that program requires. So, we run the broad gamut of different way of wireline, wireless, radio, even satellite. The best way to do it you do it that way, and we'll finance it.

Just a couple of things about what we're seeing as far as the way systems are being designed today and the services they're providing for our LEC-type program, what Bobbie called the infrastructure loans, the telecommunications loans that are targeted toward local exchange carriers. For about the last ten years the most common design that we see in there is I'll call it a fiber in the loop design where you have electronic serving areas
you group subscribers in the areas, you feed fiber out to that electronic site. Right now we're using buried copper cables to extend service from that site to the subscriber's house, but by doing that way you have fiber at least out that far. So, if you ever want to go, say, fiber to the home, you only have to put the piece in that goes from that electronic site out. And like I say, for the last ten years, this has been--we've done a lot of this, so we have a lot of--our borrowers have a lot of fiber in the loop already.

We are starting to see now some fiber to the home systems, and this a result, I think, of the cost coming down, one, it's cheaper to do it, and the other thing that's influencing that is the desire to have broadband-type services where you need something more than just, say, a copper cable to be able to do it. And then wireless, and I'll talk a little bit about this since that's sort of the thrust of here today.

One area that we have seen more interest in wireless systems is the broadband, providing broadband service, and we've seen this. We've had some pilot projects, both loans and grants to finance broadband service, and wireless is very popular there because they can use unlicensed spectrum. You can get it up and running fairly quickly because you don't have to go plow in cables or bury them. You find tower sites like water towers or grain elevators, and you can get

service up quickly and it can provide, you know, very good broadband service.

We also have seen wireless applications--not to a large extent, but they can be an overlay. In other words, you could have a local exchange carrier that uses a conventional buried system to serve most of their subscribers, but they may have pockets of scrubbers that, say, are way out where providing a broadband service to them might be difficult through the conventional ways. They may overlay a wireless system in that area and maybe feed fiber out to it and then go from there with the wireless system to provide both plain old telephone service and wireless.

And then the other area, as Bobbie said, that we've seen some increased demand from us is for mobile wireless. What we would like to do is, you know, we'd like to see mobile wireless go beyond just the roads. I mean, in most rural areas you have it while you're driving down the highway, but if you get off the highway the signal goes away, and so we'd like to encourage more coverage there so the farmer out on his tractor could use his cellular phone if he had a problem, you know, to call for help or whatever.

Lastly, the cover--this is called operational sophistication, but what this means is if you're a start-up or you're getting into new business, what are some kind of things to take into account or to look at as far as, you know, going down that road. One of them is, you know, know what you're getting into. In other words, are you just going to be a niche provider, you're going to look at one particular kind of service and that's all you're going to do, or are you going to do a broad spectrum of services, you know. If it's local telephone service, you know, there are some expectations there. It's got to work all the time. If you're providing mobile wireless service, well people don't get upset if they can't make a call this second, they have to wait a few minutes. But if you're a local exchange carrier, it's different. So, know what you're getting into and what your expectations are of making money off it because, of course, you want to make money, but maybe you won't make a ton of money, depending on the market that you get into.

You're going to want to do a market survey or something so that you can see what are the people in the area that I'm going to be providing. What do they want, what are they expecting, and then tailor your business to that. Is there competition? If you're going to be competing with somebody, maybe the pie's big enough that you both can have a slice and make money. But it may be it's win/lose situation. One of you is going to win and one of you is going to lose, so you're going to want to develop your business plan based on what that market looks like and who you're going to compete with. If you're competing with somebody and it's for the same type services, what they do and what they charge is going to influence what you do because you can't do less or

you won't get any of the market. You're probably going to have to do more to get some of their market.

The regulatory environment has a bearing on it also. I mean, who's going to regulate your service, if anybody? Is it going to be at the Federal level, the local level, et cetera. Many states have public utilities commissions that regulate some of the utilities things. For Native Americans on reservations, they have sovereignty issues, but someone will want to regulate that utility service on the reservation. It might be the tribal authority does it themselves or in a case with one of our Native American borrowers, they elected to have the public utilities commission to regulate their service because someone needs to look at the service, is it meeting the demands, are the rates reasonable, you know, et cetera. So, know the regulatory environment.

Experience. If you're just starting out you're going to need somebody that knows the market that you're getting into. If you don't have those kind of people on your staff or locally, you're going to have to get it, you know. Hire them. You're going to need consultants, unfortunately. This is great for the consultants, but it's a lot of money. You're going to need probably someone to design your system and oversee the construction, some kind of cost consultant that's going to help you project your revenue flows, et cetera, a CPA to make sure you stay legal, and then some kind of legal advice or attorney.

One thing I want to point out here on the experience, we have had some applicants that will partner. Maybe they don't have experience in the area, so they'll partner with another business that has done that before, and if they're a stock company, they'll, you know, issue stock. The majority of stock will be owned by the applicant, but maybe some by that other applicant--by that other experienced company, and thereby they gain their experience to help them get started and then at some point you buy them out and they're out of the picture,but they've helped you get started.

And then the last thing that I wanted to point out was develop a good long-range plan. I mean, planning is everything in this. You have to know where you're going and how you're going to get there. It's so complicated. There's so much regulations and things that can happen. You need to plan for that and know. It's just like those operating funds. If you don't plan for that and you run out, you're kind of high and dry at that point, so you want to try to anticipate things, know where you're going, make that plan, and then stick with it. So, hopefully companies that do these kinds of things, we'd love to participate with you and finance your service, particularly in rural areas because that's our goal is to try to improve that service out there in rural areas. So, thank you very much for your time today.

(Applause.)

MR. THIEMAN: Thank you very much, Ken, for showing us the road map on how to navigate the telecom programs.

With that, I'd like to--well, it's my honor and privilege to introduce to you the closing remarks of Kevin Martin, FCC Commissioner. Commissioner.

(Applause.)

MR. MARTIN: Good morning, everybody, and thank you for inviting me to be with you this morning. Thanks, Hilda.

The issues confronting rural America today are extremely important and timely for al of us to try to address, and they're particularly important for me. I grew up in a rural area of North Carolina, and I understand how important it is for folks that live in rural areas to have access to telecommunications and advanced services and what a difference it can make to the folks that are living in those areas.

Telecommunications in general has been responsible for much of the growth, economic growth of the country over the last few years, and I continue to be hopeful that continued deployment of telecommunications and broadband will lead to a new period of such growth. But in order for us in the United States to be able to fully recognize and take advantage of this growth, we must make certain that all Americans, those living in rural and in urban areas, are given the opportunity to participate in that growth. And specifically we have to continue to encourage the deployment of telecommunications and broadband to rural areas.

And I'm particular excited about wireless deployment because it can be critical because of the nature of wireless technologies and the potential they have to reach people living in rural areas in a much more efficient way, and so I'm particularly excited and pleased to be here to talk about this initiative this morning. This event marks, hopefully, the beginning of our focus on rural America, which is long overdue, but it also marks the beginning of a new relationship between our two agencies. On behalf of the Commission I'm particularly pleased and excited to be a partner in this kickoff. We at the Commission look forward to developing these activities, not only with RUS, but also with all the agencies, industries, and the local rural communities and particularly those who have received the recent broadband awards and grants that we were talking about just a few minutes ago.

As many of you have already heard this morning, this program's mission is to exchange information between agencies, governments, and rural communities and potential wireless industry entities regarding the development and telecommunications access programs. As Chairman Powell

indicated this morning, the project has four specific goals: First, the exchange of information about products and services each agency offers to promote the expansion of telecommunications services in rural America. Second, to harmonize our rules, regulations, and processes whenever possible to maximize those benefits for rural America. Three, to educate our partners and our other agencies about these offerings, and finally, to expand our partnership to the extent that it adds mutually beneficial to each other, to the agencies, and particularly to those who are trying to serve rural areas.

This event, as I mentioned a few minutes ago, will hopefully be the first in a series of events to come and we'll continue to look forward to participate in all of those, but we also look forward to the input that you all might provide after this first session. So, please don't be shy about giving us any feedback you might have. We'll also be launching a web site and look forward to your correspondence and encourage you to really fully participate in that.

And so finally, on behalf of the Commission, let me take just a moment to thank not only John Muleta and Nancy Plonn for their work on our staff, but also particularly Administrator Legg for her dedication and leadership and also Assistant Administrator Purcell for her obvious enthusiasm for these programs. And so, on behalf of the Commission we have a presentation for each of you that we'd like to end up making.

Clocks to try to demonstrate our ability to synchronize our efforts going forward.

(Applause.)

MS. LEGG: It's beautiful and I will put it in my office and it will be a daily reminder that he's watching the clock at the same time. So, the pressure will be on. What a clever way to do that, Commissioner. Thank you so much.

MR. MARTIN: Thank you so much, and we'll continue to look forward to working with you on all these efforts going forward. Thank you.

(Applause.)

MR. THIEMAN: And now I'd like to introduce Hilda Legg, our Administrator of USDA RUS for her closing remarks.

MS. LEGG: Thank you. Again, Commissioner Martin, it's a pleasure to have you with us today here at USDA, and all of your presentations were just terrific, each and every one of them.

You notice I skipped out on Bobbie Purcell's and Ken Chandler's. I've heard those before, so I went to get a phone call. I don't think I really can add very much in my

closing remarks to what the Commissioner has said, certainly what Chairman Powell and all of the experts that you've heard from today.

What I can say is that on behalf of the Rural Utility Service, again, we are committed to more and more of these sessions, to more of strengthening our partnership and working together on behalf of what I call the people at the end of the line, the families at the end of the line. And in my business at RUS, that may be a water line or an electric line. In this case, it's at the end of the telephone line, or for wireless, it's at least at the end of the signal. So, that is the ultimate goal, as I mentioned in the beginning, to provide this service for the now-residents of rural America, and we strengthen our ability to do so through the partnership.

I know that Bobbie would have mentioned that we have $1.45 billion in our Broadband Program plus our regular program. Ladies and gentlemen, my position is that this President and the Congress did not put that money in RUS's budget to sit here in Washington, D.C. in the office of the U.S. Treasury. That money is meant to deploy telecommunications to the residents in rural America. With your help we can disseminate this information, a major goal that John mentioned, that you can us to identify those potential borrowers and recipients and that we will be glad to work with them, both with our headquarters staff and with our field staff, which we're fortunate to have at RUS. So, we can really be on the ground as well as with our rural development state offices working with the folks. So, please help us spread the word that we have some resources and that together we are working to make those resources more viable and more accessible for the residents of rural America.

Again, to all of the folks who put effort forth today, I want to thank you. This doesn't happen--the Commissioner and I and the Chairman and I get to come, and I think it always doesn't have the fun part, but all the work behind the scenes goes to the staff and the leadership within both the FCC and within Rural Utilities Service and Rural Development. So, thank you again.

I know that you're going to have an open forum time and a little socialization time, so I want to encourage you to participate in that. And again as the Commissioner said, please give us your feedback. You know, we get really caught up here in Washington. We're focused on what's on our desk and the next E-mail, and the phone calls. And it's so important to hear from you folks who are out there in the areas, in the communities, and have another point of view and another approach to this. So, your ideas and your suggestions are always welcome at RUS and I think the Commissioner would say at FCC as well.

Thank you for your commitment. You know, I can't help but close--and I do this all the time, so forgive me, but let me just give you my famous Burke quote, Commissioner, and it is: "The only way for evil to survive,"--and ladies and gentlemen, I define evil as not just the terror and stuff, September 11th or the sniper that we all experienced in this area, but evil is also poverty, it's also the lack of education, the lack of opportunity, and he said, "The only way for evil to survive is for good men,"--and I add women--"for good men and women to do nothing." And I know that evil will never survive in this country because you in this room both in headquarters staff at FCC, at USDA, and those of you who are across the country are out there every day trying to make your communities stronger in rural America and provide services to the folks in those communities. And so I close by thanking you for your commitment to rural America, and we're delighted to be a partner in that endeavor. Thank you very much.

(Applause.)

MR. THIEMAN: Thank you very much, Administrator Legg. At this time we're going to have the open forum. Our microphones are here available for any questions. We'd also like to mention to you that the appointments, the scheduled appointments to be held, we've got Ken Chandler, Ken Cuchino (ph) and Jerry Brent. If you could make your way forward somewhere during the end of this open forum. So, if there are any questions, please feel free to go ahead and ask.

MR. ROBBINS: Okay. My name is Ken Robbins. I'm President of the National Center for American Indian Enterprise Development. I just really wanted to thank the leadership of the two agencies, the Department of Agriculture and the FCC, and I agree with Hilda Legg that it's wonderful to see the two agencies working together. It's a very positive agency partnership and in Indian country the Internet is kind of a double-edged sword as it is to many of the communities out there. But either it will overcome the barriers or it will enhance the barriers that we face.

Not too long ago the Government Accounting Office came out with a report, and that report said that of all the monies that were made available to Indian communities, more than half went unspent. And we see that as relating to the barriers of access to the Internet to the Indian communities, but also in the agency coordination. So, we are real happy to hear comments such as Mr. Muleta's earlier this morning.

And another comment. At the National Center is a business organization that we are concerned about the prioritization the use of the Internet. That's wonderful in government contracting, but what it's doing to some of our communities and our businesses is those that don't have access, even telephone access, are being omitted from the market, so it's kind of like a monopoly shutting out Indian businesses. And

it's hard for a lot of folks out in the East to, I guess, comprehend, you know, an Indian community, but if you think about where the railroad tracks end, that's where a lot of our people are located. So, it is a difficult situation.

But on behalf of our leadership we really support this initiative and your outreach efforts, and we look forward to working with you in Indian country. Thank you.

(Applause.)

MR. THIEMAN: Thank you very much, Ken.

Yes, ma'am.

MS. KING: My name is Karen King, and I'm with Venable here in Washington, D.C., and I also had a question about Indian country. I wanted to know if any of the funding opportunities have any different stipulations for tribes or tribal consortiums.

MR. THIEMAN: Go ahead, Bobbie.

MS. PURCELL: Actually, all of our programs are open to any entity that one comes in. We had a good, long history of lending Internet of American Tribal Utilities. I think we had, what, seven or eight--six of our borrowers are actual tribal utilities who have come in to us, borrowed money under our Infrastructure Program, and set up what are very modern, advanced telecommunications companies.

We also just ended our first round of funding on what we call our Community Connect Grants, which I really didn't have a chance to talk about this morning, but very quickly that was a grant program that was intended to go into communities that because of their remote location and because of maybe income levels that were lower than the national average couldn't just naturally cash flow alone. We made $20 million available in those grants for the first round this year and we're very pleased to say that of the ten of the 40 recipients of those grants are Native American entities which will bring a fully operational broadband system to those Native American reservations. So, while we don't have any differing regulations or provisions for the Native Americans, we try to make sure that the programs that we have in place are very accessible to the Native Americans, and we have I think a good, long history, particularly with our general field representatives who are out in the field of working with Native American to come in to us and get the financing that brings so much of the needed access to these communities. Thank you.
MR. THIEMAN: Today sort of the challenge that we've thrown open to this community is there's a tremendous amount of resources available. The real key is figuring out how to put the package together that actually ends up serving the rural community. So, it's not a lack of programs. It's not a lack of funding. I think it's a lack of people focusing

on how we can work in an integrated fashion just within the FCC, Bill Maher, Kris Monteith, myself all have different things that we can do to put it together, and I think we're throwing open a challenge. Communicate with us, tell us what needs to happen, and we'll see if we can make it happen. So, you know, the challenge is not just among ourselves, but also to the community at large.

Yes, ma'am.

MS. CAMPBELL: My name is Darlene Campbell, and I represent opie.net (ph). We're one of the recipients of the broadband community connectivity grant. We're from New Mexico, and we're very proud that you've awarded four of them to our New Mexican people. Two of them I know are to Indian tribes, and we all have the same problem out there. We are so rural and our territory is so hilly, and a large portion of our people don't even have telephones, 25 percent in the area that I represent.

An additional problem is many of them do not even have power. They have generators, they have solar power, even wind power. So, it present quite a challenge whenever we're working out there.

With that in mind, I want to thank you at the USDA for presenting us with this grant. And I want to know when we're going to get some money because I have a whole town. They're celebrating their 100th centennial--it's a centennial celebration, and we're having a big parade on the 4th of July, and everybody walks up and down the town, it's about 1,150 people, and they say, hey, when are we going to get our Internet access? We want to get started before the fall session for school. We have the University of New Mexico, which has said that they will hold classes there. The Family Literacy Program will hold classes there. The GED program and a couple of other programs have offered to hold classes there. So, we really are anxious to get going.

My husband also--he and I are the proprietors of our small business, which is an LLC, and we have come out here because he asked me to send some questions out to you in regard to a couple of issues. I would imagine that the FCC can probably answer some of these questions a little better. So, let me just put them out, and you can get back to me.

We were talking about an expansion of the 2.4 gigahertz to add Channels 12, 13 and 14. Currently we do not have that in the United States, and that would put us on par with Japan. Is that going to be in the offing in the near future?

Secondly, will we be getting more spectrum on the 5.8 gigahertz band?

And thirdly, he wants to see a higher effective radiated power, ERP, output to be allowed in both the 2.4 and the 5.8

gigahertz bands because the ranges that we have to cover in a rural area are very extended distances. Currently we're allowed about four watts on a point-to-point link with a directional antenna, and on an omni we're allowed one watt. He gave me a couple of examples to use, but I'm not going to bore you with all that. So, he would like to see at least 20 watts, but 50 would be better, and this would be in a rural area, and it would not face the same type of interference issues that we would face in a metropolitan area. So, if we can't do this with everyone, could we possibly allow the rural areas to exempt out of that limitation so that we can cover those areas that we have to cover?

Our broadband reaches from a little town called Avo to Moriarity, which is about 60 miles. In that area we have approximately 17,000 people. In order for us to get to those people, we not only have to have a major repeater, we have to have many repeaters because we have to shoot down-canyon and over little hills, and all of this, of course, as you can understand, is very expensive, and it would require more power than what we're allowed to do. So, we would like you to take those into consideration.

I thank you very much for your attention.

(Applause.)

MS. PURCELL: Well, first of all, I'd like to say congratulations on being a grant recipient and way our processes work, we make the announcement, we make the grant award. We are in the final stages with our Office of General Counsel of developing a grant agreement which as soon as that is complete, we will send that out to you. As soon as you sign that, you will be eligible to draw down funds. So, we're going to make that process as quick as we possibly can to get that check in the mail out to you as quick as possible because we do understand that it is critically important, not only to get the service out, but particularly it's good to have it during the summer months when you can do your construction and particularly to have some of your Distance Learning capabilities up and running for the school year. So, as soon as we get out here today, I'll check and see where that grant agreement is and see if we can't speed that process along.

MR. MULETA: With regard to the FCC questions that you presented, in my presentation I pointed out that exactly those very same issues are being teed up in a variety of ways. So, the power limit issues we have are not only notices of inquiry for unused TV spectrum that was put out earlier in the year, but also we're considering changes in granting more flexibility in power, also to buildout requirements, you know, enabling sharing of infrastructure to get at reducing the costs. So, all of these things are teed up. One of my hopes is that joint action plan will be to sort of figure out--there's a community there that we can

sort of focus in and use as a template and resolve some of these issues. I understand. We'll see if we can work that out. But I think what we need to do is sort of have a test bed where we can try some of these ideas to put forward.

I think the focus on the applications is exactly the right concept, the right sets of applications, so I'm glad to hear that there are people out there that are thinking of these issues. And maybe after we finish here, we can get some of the information and be in direct contact with your engineers. Thank you.

MR. THIEMAN: Any other questions for our open forum?

Okay, with that I'd like to just wrap up with just who will meet with whom in our RUS programs and joined by the FCC staff if they are available. For meeting with Ken Chandler, Ken would you please stand. We've got Andrea Dayes (ph) and Ken Robbins. So, after this the two of you can meet with Ken. And with Ken Cuchino, please stand. Ken's all the way in the back there. We've got Jael Trigg (ph) and Darlene Campbell. And Jay Brent. Jay, please stand. All right, for Jay we have Laird Paxton (ph) and Charlene Winger (ph). After this please see the appropriate folks.

And with that, I'd like wrap it. Thank you very much for your time and for those who'd like to have lunch, please meet in the back, and we will escort you as a group to the cafeteria. Thanks again, and thanks for the welcome.

(Applause.)

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